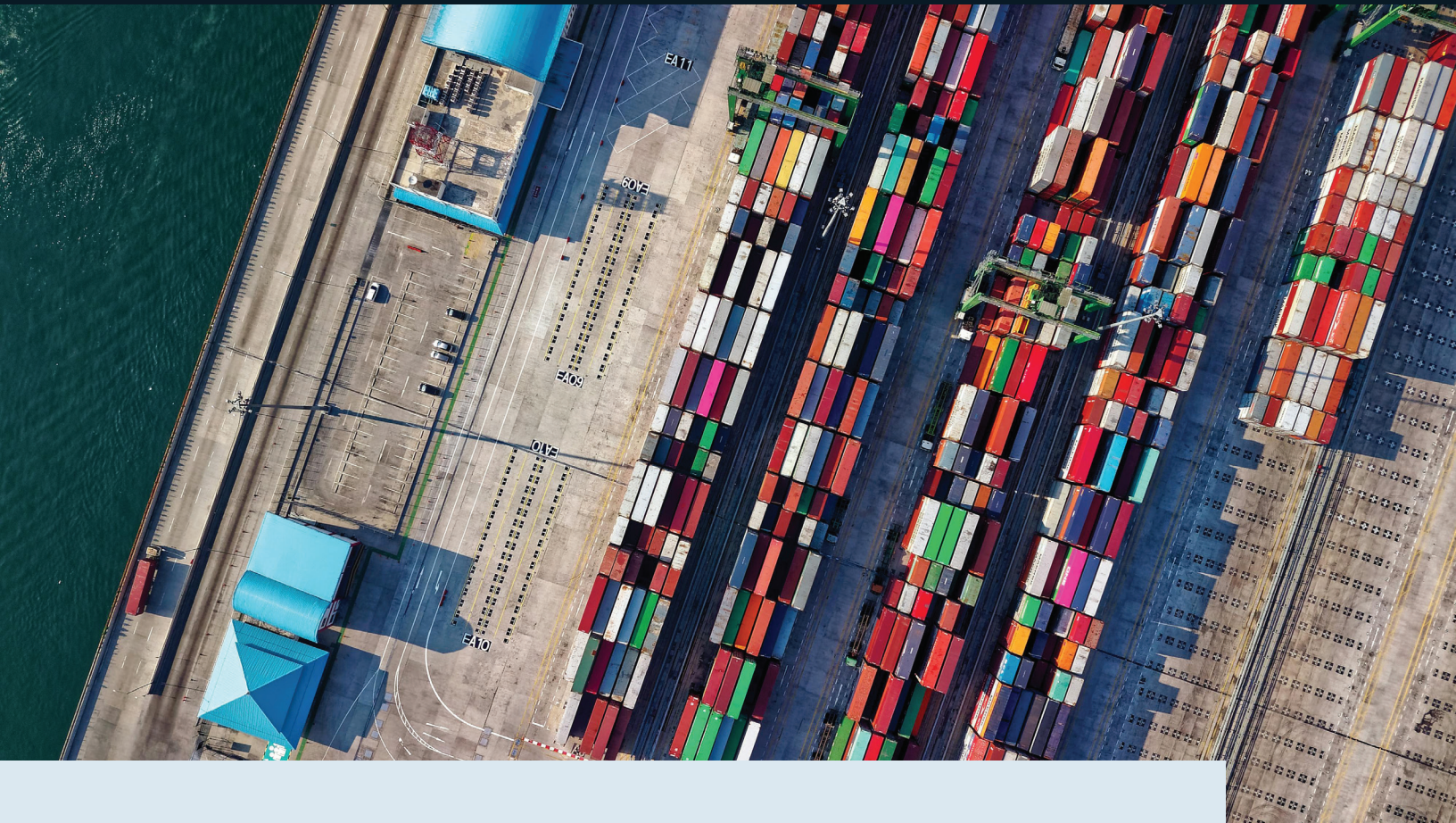


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TREND REPORT

Impact of Tariffs on Industrial Distribution and Manufacturing in Texas



Impact of Tariffs in Texas



Recent tariffs, particularly those imposed or escalated in 2025, have significantly impacted Texas' industrial distribution and manufacturing sectors, with pronounced effects in Houston, Dallas, Austin, and San Antonio. These trade policies, including a 25% tariff on non-USMCA-compliant Mexican imports (with broad exemptions for compliant goods), 10% on most Canadian goods (lower on energy), and escalating rates averaging ~57% on Chinese imports (higher in specific sectors), have driven up costs for non-exempt goods, disrupted certain supply chains, and heightened uncertainty. While USMCA exemptions have mitigated much of the potential damage (covering ~85-90% of Mexico/Canada trade), uncertainty persists. This report examines the immediate and long-term effects on key industries in these markets, highlighting how uncertainty has led to delayed hiring and investment decisions.



Immediate Impacts of Tariffs (2025)

Houston

- » **Key Sectors Affected:** Oil and gas, petrochemicals, automotive, and electronics.
- » **Cost Increases:** Houston, a hub for oil and gas and petrochemical industries, faces moderated cost pressures due to tariffs on non-exempt Mexican imports (\$142.7 billion in 2023 total trade), particularly for transportation equipment and electronic components. Over 70% of manufacturing firms report negative impacts, with 47.7% citing higher input costs and 27% raising selling prices. USMCA compliance has shielded most integrated supply chains.
- » **Supply Chain Disruptions:** The integrated cross-border supply chain with Mexico, critical for automotive and electronics, has seen limited compounded costs for compliant goods. Port activity, vital for Houston, stabilized after initial declines, with U.S. import volumes dropping ~35% early in 2025 but recovering partially under exemptions.

- » **Hiring and Investment Delays:** Uncertainty surrounding tariff policies has led 40% of firms to adopt a “wait-and-see” approach, delaying hiring and capital investments. This is particularly acute in capital-intensive sectors like oil and gas, where long-term planning is essential. Dallas Fed surveys through November 2025 show persistent caution but no sharp downturn.

Dallas

- » **Key Sectors Affected:** Manufacturing (electronics, machinery), distribution, and retail.
- » **Cost and Margin Pressures:** Dallas manufacturers, heavily reliant on Chinese components for electronics, face cost spikes from the escalated tariffs averaging ~57% on Chinese imports. Nearly 40% of firms report compressed profit margins, forcing price hikes or reduced profitability.
- » **Supply Chain Shifts:** Distributors in Dallas are grappling with delays due to slower customs

processing and are exploring alternative suppliers in Southeast Asia, though these transitions are costly and time-consuming. Nearshoring momentum has provided some offsets.

- » **Hiring Delays:** The Dallas Fed's Texas Business Outlook Surveys (TBOS) indicate multiyear highs in uncertainty through late 2025, with manufacturers postponing hiring due to unclear trade policies. This has slowed job growth in Dallas' industrial sector despite earlier resilience in Q1 2025.

Austin

- » **Key Sectors Affected:** Technology, electronics, and advanced manufacturing.
- » **Cost Escalation:** Austin's tech industry, reliant on Chinese and Mexican components for semiconductors and consumer electronics, faces significant cost increases primarily from Chinese tariffs. Mexican impacts largely mitigated by USMCA exemptions.
- » **Innovation and Investment:** Uncertainty has chilled investment in Austin's tech-driven manufacturing. Companies like Apple, with a new facility in Texas, are reevaluating supply chains, potentially shifting to India, but such moves require years and substantial capital.

- » **Hiring Slowdowns:** Tech firms are delaying hiring due to tariff-related uncertainty, with a 2020 Federal Reserve study suggesting a 1.5% drop in U.S. business investment due to similar trade policy uncertainty, a trend now impacting Austin's growth but tempered by domestic tech incentives.

San Antonio

- » **Key Sectors Affected:** Automotive, aerospace, and consumer goods manufacturing.
- » **Cross-Border Challenges:** San Antonio's automotive sector, reliant on Mexican parts, faces cost increases limited to non-USMCA-compliant goods. This has led to reduced shipping volumes in some categories.
- » **Price Increases:** Manufacturers are passing costs to consumers, with a 2018 case study on washing machines showing a 12% price hike, a trend now affecting San Antonio's consumer goods sector on affected imports.
- » **Hiring and Expansion Pauses:** Uncertainty has led firms to delay equipment acquisitions and expansions, with TBOS data showing a negative shift in sentiment persisting into late 2025, impacting job creation in San Antonio's manufacturing hubs.



Long-Term Estimated Impacts

Economic Costs

- » **Statewide Losses:** The Perryman Group estimates that a full, unmitigated 25% tariff on Mexican imports could cost Texas \$36.4 billion in annual gross product and 287,500 jobs. Additional tariffs on Canada and China could add \$15.4 billion in losses and 122,600 jobs, totaling \$51.7 billion and 410,000 jobs. Actual impacts moderated significantly by USMCA exemptions.
- » **Retaliatory Tariffs:** Texas, the largest U.S. exporting state, faces risks from retaliatory tariffs on chemicals, petroleum, and agricultural products, potentially reducing export market share and further impacting Dallas and Houston. Retaliation has been limited to date.

Sector-Specific Trends

- » **Automotive (Houston, San Antonio):** Long-term, tariffs may force manufacturers to relocate production to Southeast Asia rather than reshoring to the U.S., as seen in 2012-2016. Domestic job creation, if any, comes at a high cost (e.g., \$800,000 per job in 2018). Nearshoring within USMCA has provided partial offsets.
- » **Electronics (Dallas, Austin):** The shift away from Chinese suppliers could boost investments in domestic facilities (e.g., Apple's \$500 billion Texas investment), but high costs and long transition periods may limit benefits. Momentum steady but tempered by uncertainty.
- » **Oil and Gas (Houston):** Continued reliance on Canadian energy imports, even at a lower 10% tariff, will keep costs elevated, potentially stifling growth in petrochemical manufacturing.
- » **Distribution (Dallas, San Antonio):** Distributors may face permanent margin compression unless they diversify suppliers, a process complicated by higher costs in alternative markets.



Market-Specific Outlook

- » **Houston:** Long-term disruptions in cross-border trade with Mexico largely avoided via exemptions, preserving its competitive edge in global markets, particularly for oil and gas. Increased domestic/nearshore production may offset remaining losses if tariffs persist.
- » **Dallas:** The distribution sector may adapt by diversifying suppliers, but electronics manufacturing faces ongoing challenges due to reliance on specialized imports.
- » **Austin:** The tech sector's resilience depends on successful supply chain relocation, but prolonged uncertainty could deter startup growth and innovation. Domestic incentives supporting some gains.
- » **San Antonio:** Automotive and aerospace sectors may see limited reshoring, with firms likely shifting to other low-cost countries, impacting local job growth unless nearshoring accelerates.



Uncertainty and Business Decisions

The pervasive uncertainty surrounding tariff policies has significantly altered business strategies across Texas. The Dallas Fed's TBOS through November 2025 highlights a multiyear high in uncertainty, with manufacturers delaying hiring, capital investments, and expansions. A 2020 Federal Reserve study estimated a 1.5% drop in U.S. business investment due to trade policy uncertainty, a trend now evident in Texas but moderated by exemptions and adaptations. Firms are adopting a cautious approach, waiting for clarity on trade policies, which could delay economic recovery and growth in these markets.

Recommendations

1. **Maximize USMCA Compliance:** Prioritize sourcing and documentation to secure exemptions on North American trade—the single most effective mitigation.
2. **Diversify Supply Chains:** Manufacturers and distributors should explore alternative suppliers in Southeast Asia or domestic sources to mitigate tariff costs on non-exempt goods.
3. **Invest in Automation:** To offset rising costs, firms should prioritize automation and process optimization, as seen in some Ohio-based manufacturers.
4. **Monitor Policy Changes:** Businesses must stay agile, tracking the upcoming USMCA review in 2026 for potential escalations.
5. **Advocate for Clarity:** Industry groups in Texas should push for predictable trade policies to reduce uncertainty and support long-term planning.

Tariffs have imposed immediate cost increases on non-exempt goods, supply chain disruptions in targeted categories, and hiring delays across Texas' major markets, with Houston, Dallas, Austin, and San Antonio facing unique challenges. Long-term, the state risks significant economic losses unless firms adapt through diversification and automation—though USMCA exemptions and nearshoring trends have provided meaningful offsets. The uncertainty surrounding trade policies continues to hinder growth, underscoring the need for strategic resilience and policy advocacy.



Potential Long-Term Benefits of Tariffs on Texas Due to Proximity to Mexico

Texas's geographic proximity to Mexico—sharing a 1,254-mile border—has long fostered deep economic integration, with over \$500 billion in annual bilateral trade flowing through Texas ports like Laredo, El Paso, and Brownsville. This makes Texas uniquely positioned in the U.S.-Mexico trade ecosystem, particularly under the USMCA (United States-Mexico-Canada Agreement), which exempts a significant portion of compliant goods from tariffs (estimated at 85-90% of Mexican imports as of late 2025). The 2025 tariffs, including the 25% rate on non-USMCA-compliant Mexican goods imposed in February (with pauses and broad exemptions secured by March), have introduced volatility, but they have yielded long-term benefits for Texas's industrial distribution and manufacturing sectors through accelerated nearshoring and preserved integration.

1. Strengthening Nearshoring and Supply Chain Resilience

- » **Opportunity from Proximity:** Tariffs on distant competitors like China (now averaging ~57% with peaks higher) make Mexico a more attractive “nearshoring” destination for U.S. companies seeking to diversify away from Asia. Mexico’s logistical advantages—shorter shipping times, lower transportation costs, and just-in-time delivery—cannot be easily replicated by farther-flung suppliers. For Texas, this means increased cross-border manufacturing activity, as components produced in Mexico (e.g., auto parts from Monterrey or electronics from Tijuana) can flow quickly into Texas assembly plants under exemptions.
- **A Federal Reserve Bank of Dallas study highlights this spillover:** A 10% increase in factory output in Ciudad Juárez, Mexico, boosts total employment in El Paso, Texas, by 2.8%, particularly in transportation, retail, and real estate. This integration has amplified in 2025, encouraging more U.S. firms to invest in Mexican facilities that qualify for USMCA exemptions, thereby routing more trade through Texas gateways.
- » **Impact on Sectors:** In automotive (key in San Antonio and Houston), electronics (Dallas and Austin), and machinery distribution, nearshoring has created jobs and investment despite initial volatility. For instance, higher Chinese tariffs have sustained a nearshoring boom since 2020, with U.S. companies like Ford and GM expanding in Mexico and routing through Texas.
- » **Long-Term Estimate:** If tariffs stabilize with USMCA protections intact, analysts from the Baker Institute project that Mexico could see sustained foreign direct investment (FDI) in compliant manufacturing, potentially adding 100,000-200,000 jobs in Texas-related supply chains by 2030 through enhanced regional integration. Nearshoring momentum held steady in 2025, supporting this outlook.



2. Boost to Domestic and Regional Manufacturing

- » **Reshoring Incentives:** The tariffs aim to “reset” global supply chains, as noted by Texas Gov. Greg Abbott, by making imported non-compliant goods more expensive and encouraging production closer to the U.S. market. Texas’s manufacturing base—already the second-largest in the U.S.—has benefited from reshoring/nearshoring, especially in petrochemicals (Houston) and advanced tech (Austin), where Mexican proximity allows for hybrid models: low-cost assembly south of the border feeding into Texas value-added processes under exemptions.
 - Proximity has mitigated tariff pain; for example, peso depreciation in 2025 (down ~23% against the dollar) has effectively neutralized much of the impact on Mexican exports, keeping costs competitive for Texas importers.
- » **Sector-Specific Gains:**
 - **Industrial Distribution (Dallas and San Antonio):** Distributors have seen volume growth in USMCA-exempt trade, with Texas handling 40% of U.S.-Mexico freight. Rice farmers in Southeast Texas, for instance, view tariffs as an opportunity to capture more market share if Mexican agricultural imports face barriers.
 - **Manufacturing (Houston and Austin):** Oil/gas and electronics have gained from diversified suppliers, with nearshoring investments like Apple’s \$500 billion Texas expansion progressing amid moderated trade friction.



Long-Term Estimate

The Perryman Group (updated 2025 models) suggests that if tariffs lead to 10-15% reshoring/nearshoring to North America, Texas could gain \$20-30 billion in annual output and 50,000-100,000 jobs by 2030, offsetting earlier losses of \$36 billion from full tariff scenarios. This assumes—and 2025 developments support—USMCA exemptions holding, turning proximity into a competitive edge.

3. Negotiation Leverage and Policy Stability

- **Diplomatic and Economic Wins:** Tariffs have historically pressured Mexico into concessions, as seen in Trump's first term when threats secured border agreements. In 2025, brief tariff impositions led to a March deal exempting most USMCA goods and water-sharing pacts, stabilizing trade flows. Long-term, this could result in revised USMCA terms (up for review in 2026) that favor Texas by reducing non-tariff barriers and enhancing energy trade (e.g., lower tariffs on Canadian/Mexican oil imports to Houston refineries). Mexico's December 2025 tariffs on certain Chinese goods align with U.S. pressure, potentially reinforcing regional advantages.
- **Long-Term Estimate:** If tariffs evolve into targeted protections (e.g., 10% baseline on non-North American goods), the Budget Lab at Yale projects Mexico's economy could grow slightly larger long-term due to relative advantages over tariff-hit rivals like China, indirectly boosting Texas exports by 5-10%.

Risks and Uncertainties Tempering Benefits

While proximity positions Texas for gains, the overall picture is mixed but tilted toward moderated impacts:

- » **Short-Term Disruptions:** Early 2025 tariff hikes strained Texas exporters (e.g., 30% on non-exempt goods), raising costs for manufacturers reliant on Mexican inputs and delaying hiring amid uncertainty. Retaliatory Mexican tariffs could hit Texas agriculture and chemicals, potentially costing \$15 billion annually but limited in practice.
- » **Broader Economic Drag:** Analyses from J.P. Morgan and the Tax Foundation estimate U.S. GDP could shrink 0.6% long-term from all 2025 tariffs, with Texas facing higher consumer prices (\$1,300 per household) and slowed growth in integrated sectors like autos. Brookings warns that tariffs undermine North American integration, benefiting China instead if exemptions erode.
- » **Uncertainty's Toll:** Ongoing volatility (e.g., IEEPA tariffs challenged in court) has led firms to delay investments, with Dallas Fed surveys showing multiyear highs in trade uncertainty through late 2025. Proximity helps, but without policy clarity, benefits may not fully materialize. The upcoming USMCA review in 2026 remains the key wildcard.

A Net Positive with Strategic Adaptation?

Texas's proximity to Mexico has provided long-term benefits from the 2025 tariffs, primarily through accelerated nearshoring, job spillovers in border regions, and leveraged negotiations that preserve USMCA advantages. This has enhanced Texas's role as a North American manufacturing powerhouse, potentially adding tens of thousands of jobs and billions in output by 2030 in the four major markets (**Houston, Dallas, Austin, San Antonio**). However, these gains hinge on exemptions remaining in place and avoiding full-scale trade wars—scenarios where costs outweigh benefits. 2025 developments—broad exemptions and steady nearshoring—support a cautiously optimistic outlook. Businesses should prioritize USMCA compliance, diversify suppliers, and advocate for stability to capitalize on proximity's edge. For the latest developments, monitoring USMCA reviews in 2026 will be crucial.





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